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1. **INTRODUCTION:**

**ECONOMIC SYSTEMS:**
- Human life depends on uses (consumption) of certain things (goods and services) some of which, up to a level, are also essential (such as food, water, shelter, cloth, etc.) for survival. This challenge has two dimensions of it—
  - these things need to be created (produced)
  - they should reach (distributed/supplied to) the needy people.
- For production one needs to set up productive assets for which money needs to be spent (known as investment).
- Economy mainly are of four types:
  a) Market Economy
  b) Non-Market Economy
  c) Mixed Economy
  d) Distribution Systems

**WASHINGTON CONSENSUS**
- It is a set of reform policy package which was suggested by the International Monetary Fund, World Bank and the US Department of the Treasury (i.e., the US finance ministry) to the developing countries faced with economic crisis.
- Since all of these institutions were based in Washington, the policy prescription was called Washington Consensus by the US economist John Williamson.

**BEIJING CONSENSUS**
- the idea of Beijing Consensus was forwarded by Joshua Cooper Remo in 2004.
- Also known as Chinese Model of economic development, this refers to the policies which were followed by Deng Xiaoping since 1976 (the year Mao Zedong died).
- This model is believed to be forwarded as an alternative to the Washington Consensus (i.e., an anti-Washington Consensus view) for the developing countries.
- Over the time experts interpreted this model in different ways rather it is believed to be based on three main pillars—
  1. Constant experimentation and innovation;
  2. Peaceful distributive growth with gradual reforms;
  3. Self-determination and inclusion of selective foreign idea

**SANTIAGO CONSENSUS**
- Core idea is inclusion which should not be only economic but social too. This way, this is a socio-economic development model and is bound to have its local characteristics.
- This proposal from the World Bank inspired the world governments to focus more on aspect of inclusive socio-economic growth. We see this happening in India also—with the Government launching the third generation of economic reforms in 2002.

1. **NATIONAL INCOME**
- National income of a country can be defined as the total market value of goods and services produced in the economy in a year.
- The three-important measure of calculating National Income of a country are:
  - The sum of the value of all final goods and services produced.
  - The sum of all incomes accruing to factors of production, i.e., Rent, Interest, Profit and Wages.
- The sum of consumer’s expenditure, net investment, and government expenditure on goods and services.
  a) **GDP:**
  
  **Gross Domestic Product (GDP)** is the value of the all final goods and services produced within the boundary of a nation during one year period.
  
  It is also calculated by adding national private consumption, gross investment, government spending and trade balance (exports-minus-imports).
  
  The use of the exports-minus-imports factor removes expenditures on imports not produced in the nation, and adds expenditures of goods and service produced which are exported, but not sold within the country.
  b) **NDP:**
  
  **Net Domestic Product (NDP)** is the GDP calculated after adjusting the weight of the value of ‘depreciation’. This is, basically, net form of the GDP, i.e., GDP minus the total value of the ‘wear and tear’ (depreciation) that happened in the assets while the goods and services were being produced. Every asset go for depreciation in the process of their uses, which means they ‘wear and tear’.
  
  The governments of the economies decide and announce the rates by which assets depreciate and a list is published, which is used by different sections of the economy to determine the real levels of deprecations in different assets.
  c) **GNP:**
  
  **Gross National Product (GNP)** is the GDP of a country added with its ‘income from abroad’. Here, the trans-boundary economic activities of an economy is also taken into account.
  
  The items which are counted in the segment ‘Income from Abroad’ are:
  
  ✓ Private Remittances
  ✓ Interest on External Loans
  ✓ External Grants
  d) **NNP:** Net National Product (NNP) of an economy is the GNP after deducting the loss due to ‘depreciation’. The formula to derive it may be written like:
  
  - NNP = GNP – Depreciation
  - NNP = GDP + Income from Abroad – Depreciation
  
  e) **Cost And Price of National Income:**
  
  ✓ **Cost**: Income of an economy, i.e., value of its total produced goods and services may be calculated at either the ‘factor cost’ or the ‘market cost’. factor cost’ is the ‘input cost’ the producer has to incur in the process of producing something (such as cost of capital, i.e., interest on loans, raw materials, labour, rent, power, etc.). This is also termed as ‘factory price’ or ‘production cost/price’.
  
  ✓ **Price**: Income can be derived at two prices, constant and current. The difference in the constant and current prices is only that of the impact of inflation. **Inflation** is considered still at a year of the past in the case of the constant price, while in the current price, present day inflation is added. Current price is, basically, the **maximum retail price (MRP)** which we see printed on the goods selling in the market.
## 2. GROWTH, DEVELOPMENT AND HAPPINESS

### ECONOMIC GROWTH:
✓ An increase in economic variables over a period of time is economic growth. The term can be used in an individual case or in the case of an economy or for the whole world. The most important aspect of growth is its quantifiability, i.e., one can measure it in absolute terms.

### ECONOMIC DEVELOPMENT:
- Economic development is the growth of the standard of living of a nation's people from a low-income (poor) economy to a high-income (rich) economy. When the local quality of life is improved, there is more economic development.
- **Measuring Development:** The idea of developing a formula/method to measure the development was basically facing two kinds of difficulties:
  ✓ At one level it was difficult to define as to what constitutes development. Factors which could show development might be many, such as levels of income/consumption, quality of consumption, healthcare, nutrition, safe drinking water, literacy and education, social security, peaceful community life, availability of social prestige, entertainment, pollution free environment, etc. It has been a relatively difficult task to achieve consensus among the experts on these determinants of development.
  ✓ At the second level it looked highly difficult to quantify a concept as development constitutes quantitative as well as qualitative aspects. It is easy to compare qualitative aspects such as beauty, taste, etc., but to measure them we don’t have any measuring scale.
- **Human Development Index:** a human development index (HDI) which was the first attempt to define and measure the level of development of economies. The HDR measures development by combining three indicators—Health, Education and Standard of Living—converted into a composite human development index, the HDI. The creation of a single statistic in HDI was a real breakthrough which was to serve as a frame of reference for both ‘social’ and ‘economic’ development.
- **Introspecting Development:** As the western world came to be regarded as developed, having top twenty ranks on the HDI, social scientists started evaluating the conditions of life in these economies. Most of such studies concluded that life in the developed world is anything but happy. Crime, corruption, burglaries, extortion, drug trafficking, flesh trade, rape, homicide, moral degradation, sexual perversion, etc.—all kinds of the so-called vices—were thriving in the developed world. It means development had failed to deliver them happiness, peace of mind, a general well-being and a feeling of being in good state.

### SOCIAL NORMS, CULTURE AND DEVELOPMENT:
Economic development is not only dependent on fiscal policy, monetary policy and taxation, but is also rooted in human psychology, sociology, culture and norms. In economics, there has been a bit of resistance in emphasising other aspects of development, because it is thought of giving ground to the neighbouring disciplines.

### NUDGE & PUBLIC POLICY:
- Behavioural economics provides insights to nudge people towards desirable behaviour. By now, nudge has been successfully used in India as an instrument of public policy (in the Swachh Bharat Mission (SBM) and Beti Bachao Beti Padhao (BBBP) campaigns)
- It can be further used to aim even higher goals such as—
  ✓ from BBBP to BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi).
  ✓ from Swachh Bharat to Sundar Bharat.
  ✓ from ‘Give it up’ (for the LPG subsidy) to ‘Think about the Subsidy’.
from tax evasion to tax compliance.

**EVOLUTION OF THE INDIAN ECONOMY:**

**PRIME MOVING FORCE: AGRICULTURE VS. INDUSTRY:**

- Every economy has to go for its development through exploitation of its natural and human resources. There are priorities of objectives set by the economy which is attempted to be realised in a **proper time frame.**
- The availability and non-availability of resources are not the only issues which make an economy decide whether to opts for agriculture or industry as its prime moving force.
- There are many more **socio-political** compulsions and objectives which play their roles in such decision making.
- Given the available resource base it seems an illogical decision as India lacked all those pre-requisites which could suggest the declaration of industry as its prime mover:
  - Almost no presence of **infrastructure sector**, i.e., power, transportation and communication.
  - Negligible presence of the infrastructure industries, i.e., iron and steel, cement, coal, crude oil, oil refining and electricity.
  - Lack of investible capital—either by the government or the private sector.
  - Absence of required technology to support the process of industrialisation and no research and development.
  - Lack of skilled manpower.
  - Absence of entrepreneurship among the people.
  - Absence of a market for industrial goods.
  - Many other **socio-psychological factors** which acted as negative forces for the proper **industrialisation** of the economy.

- The obvious choice for India would have been the agriculture sector as the prime moving force of the economy because:
  - The country was having the natural resource of fertile land which was fit for cultivation.
  - Human capital did not require any kind of higher training.
  - There were many decisions which were taken under the influence of the main political force of the times, still some very vital ones were influenced by the visionary hunches of the political leadership mainly being **J. L. Nehru**. This is why the economic thinking of independent India is considered and said to be nurtured by **Nehruvian Economics** even today.

- Looking at the resources available, agriculture would have been the obvious choice as the **prime moving force (PMF)** of the economy.

- The **dominant ideology** around the world as well as in the **WB and the IMF** was in favour of industrialisation as a means to faster growth, which could be translated into faster development.
- The **second World War** has proved the supremacy of defence power. For defence a country needs not only the support of science and technology, but also an industrial base. India also required a powerful defence base for herself as a deterrent force.
- Even before Independence, there was a socio-economic consensus among social scientists along with the nationalist leaders, that India needed a boost towards social change as the country lagged behind in the areas of modernisation.
- By the time India got her independence the might of industrialisation was already proven and there
were no doubts regarding its efficacy.

- As per the Planning Commission such a policy shift will solve the three major challenges faced by the economy:
  - Economy will be able to achieve food security with the increase in agricultural production. Besides, the agricultural surplus will generate exports in the globalising world economy benefiting out of the WTO regime.
  - The challenge of poverty alleviation will be solved to a great extent as the emphasis will make agriculture a higher income-generating occupation and induce growth in the rural economy by generating more gainful employment.
  - The situation of India as an example of ‘market failure’ will cease.

**PLANNED AND MIXED ECONOMY:**

- India was constitutionally declared a federation of states, in the process of planning, the authority of regulation, directing and undertaking economic activities got more and more centralised in the Union government.
- The Great Depression of 1929 and the reconstruction challenges after the second world War had made experts to conclude in favour of a state intervention in the economy.
- It was the same time that the command economies (i.e., state economies) of the Soviet Union and the East European countries started making news about their faster economic growth. In the 1950s and 1960s, the dominant view among policymakers around the world was in favour of an active role of the state in the economy.
- A dominant role for the state in the economy to neutralise market failure situations was gaining ground around the world.

**EMPHASIS ON THE PUBLIC SECTOR:**

- **Infrastructural Needs:** Every economy whether it is agrarian, industrial or post-industrial, needs suitable levels of infrastructure such as power, transportation and communication. Without their healthy presence and expansion, no economy can grow and develop.

- **Industrial Needs:** India had opted for the industrial sector as its prime moving force.

- **Employment Generation:** The PSUs were also seen as an important part of the employment generation strategy. A government in a democratic set up cannot think only economics, but it has to realise the socio-political dimensions of the nation too. The country was faced with the serious problem of poverty and the workforce was increasing at a fast rate. Giving employment to the poor people is a time-tested tool of poverty alleviation. The PSUs were thought to create enough jobs for the employable workforce of the economy.

- **Profit and Development of the Social Sector:** The investment to be made by the government in PSUs was in the nature of asset creation and these entities were to be involved in production activities. It was natural for the government to gain control over the profits and dividends accruing from them.

- **Rise of the Private Sector:** As the PSUs took the responsibility of supplying the infrastructure and the basic industries to the economy, a base for the rise of private sector industries was slowly
established. With the rise of private sector industries in the country, the process of industrialisation was thought to be completed. Out of the many roles the PSUs were supposed to play, this was the most far-sighted.

**ECONOMIC PLANNING:**

1. **DEFINITION:**
   - **Planning is a process:** It means planning is a process of doing something. Till we have some goals and objectives left regarding our lives, the process might continue.
   - **Planning must have well-defined goals:** After the Second World War, several countries went for development planning. As these nations had enormous socio-economic hurdles, they first set some goals and objectives and then started their process of realising them via planning.
   - **Optimum utilisation of the available resources:**
     - the way of utilising the resources.
     - the idea of the natural resources which are available.

2. **ORIGIN AND EXPANSION OF PLANNING:**
   - **Regional Planning:**
     - It was at the regional level that planning was used as a part of development policy by any country for the first time.
     - It was the USA which started the first regional planning after the Tennessee Valley Authority (TVA) was set up in 1916—for a large-scale rehabilitation in south-eastern USA covering parts of seven states.
     - With the primary aim of flood control, soil conservation and providing electricity, the TVA/the regional plan was also involved in many related activities such as industrial development, forestry, wildlife conservation, town planning, construction of road and rail, encouraging sound agricultural practices and malaria control in the defined region.
   - **National Planning:**
     - The official experiment in the area of national planning is rooted in the Bolshevik Revolution of Russia (1917)—the Soviet Union.
     - Dissatisfied with the pace of industrialisation, it was in 1928 that Joseph Stalin announced its policy of central planning for the Soviet Union.
     - The collectivisation of agriculture and forced-draft industrialisation were other radical new policy initiatives announced by Stalin besides economic planning in 1928.
     - The Soviet Union went for its first five year plan for the period 1928–33 and the world was to have its first experience of national planning.
     - The nature and scope of Soviet planning (called the Gosplan) will have its direct or indirect bearings on all those countries which went for economic planning.

3. **TYPES OF PLANNING:**
   - **Imperative Planning**
     - The planning process followed by the state economies (i.e., the socialist or communist) is known as the imperative planning.
     - Such planning is also called as directive or target planning. Such planning had two main variants. In
the socialist system, all economic decisions were centralised in the hands of the state with collective ownership of resources (except labour).

✓ Basic features of such planning are as under:
  • Numerical (i.e., quantitative) targets of growth and development are set by the plan.
  • As the state controls the ownership rights over the resources, it is very much possible to realise the above-cited planned targets.
  • almost no role for the market, no price mechanism with all economic decisions to be taken in the centralised way by the state/government.
  • no private participation in the economy, only the state plays the economic role.

Indicative Planning:
✓ after the soviet planning commenced, the idea of planning got attention from the democratic world.
✓ neither state economies nor communist/socialist political systems, the nature of their planning was different from the command economies. Such planning has been termed as indicative planning by economists and experts.
✓ The identifying features of indicative planning may be summed up as under:
  • every economy following the indicative planning were mixed economies,
  • unlike a centrally planned economy indicative planning works through the market (price system) rather than replaces it.
  • side by side setting numerical/quantitative targets a set of economic policies of indicative nature is also announced by the economies to realise the plan targets.
  • the indicative nature of economic policies, which are announced in such planning, basically encourage or discourage the private sector in its process of economic decision making.

NITI Aayog:
✓ In January 2015, the Government of India replaced the erstwhile body, Planning Commission, by the NITI Aayog.
✓ the functions and guiding principles of the new body we come to know that India has officially moved towards normative planning—the new body has to follow a development model which is ‘all round, all pervasive, all inclusive and holistic’.
✓ In this process the NITI Aayog has been further asked to enable the country to draw on the vitality and energy of the bedrock of our ethos, culture and sustenance
## PLANNING IN INDIA

### INTRODUCTION:
It was the Soviet Union which explored and adopted national planning for the first time in the world. After a prolonged period of debate and discussion, the First Soviet Plan commenced in 1928 for a period of five years.

### BACKGROUND:
#### The Visvesvaraya Plan:
- The credit of proposing the first blueprint of Indian planning is given to the popular civil engineer and the ex-Dewan of the Mysore state, M. Visvesvaraya.
- Ideas of state planning were an exercise in democratic capitalism with emphasis on industrialisation—a shift of labour from agricultural to industries, targeting to double the national income in one decade.

#### The FICCI Proposal:
- In 1934, a serious need of national planning was recommended by the Federation of Indian Chambers of Commerce and Industry (FICCI), the leading organisation of Indian capitalists.
- Its President N.R. Sarkar proclaimed that the days of undiluted laissez-faire were gone forever and for a backward country like India, a comprehensive plan for economic development covering the whole gamut of economic activities was a necessity.
- Voicing the views of the capitalist class, he further called for a high powered ‘National Planning Commission’ to coordinate the whole process of planning so that the country could make a structural break with the past and achieve its full growth potential.

#### The Congress Plan:
- Though the Gandhians and some of the business and propertyed representatives were opposed to commit the party to centralised state planning (including Mahatma Gandhi).
- It was on the initiative of the INC president Subhash C. Bose that the National Planning Committee (NPC) was set up in October 1938 under the chairmanship of J. L. Nehru to work out concrete programmes for development encompassing all major areas of the economy.
- The NPC was set up in a conference of the Ministers of Industries of the Congress-ruled States where M. Visvesvaraya, J.R.D. Tata, G.D. Birla and Lala Sri Ram and many others including academicians, technocrats, provincial civil servants, trade unionists, socialists and communists, etc., were also invited.
- Some of the important developments after the NPC was set up which prepared a foundation for coordinated planning in Independent India are given below:
  - **Post War Reconstruction Committee:** Early in June 1941, the Government of India formed a Post-War Reconstruction Committee which was to consider various plans for the reconstruction of the economy.
  - **Consultative Committee of Economists:** A consultative committee of economists under the chairmanship of Ramaswamy Mudaliar was set up in 1941 as a ‘think tank’ to advise the four post-War Reconstruction Committees for executing national plan for the country.
  - **Planning and Development Department:** After all possible delays, it was in 1944 that the government created a Planning and Development Department under a separate member of the Viceroy’s Executive Council for organising and co-ordinating economic planning in the country.
Ardeshir Dalal (the controller of the Bombay Plan) was appointed as one of its acting members. More than 20 panels of experts were set up.

- **Advisory Planning Board:** In October 1946, the Government of India appointed a committee called the ‘Advisory Planning Board’ to review the planning that had already been done by the British government, the work of the National Planning Committee, and other plans and proposals for planning and to make recommendations regarding the future machinery of planning and also in regard to objectives and priorities.

**The Bombay Plan:**

- The Bombay Plan was the popular title of ‘A Plan of Economic Development for India’, which was prepared by a cross-section of India’s leading capitalists.
- The eight capitalists involved in this plan were Purshotamdas Thakurdas, J.R.D. Tata, G.D. Birla, Lala Sri Ram, Kasturbhai Lalbhai, A.D. Shroff, Arvindshir Dalal and John Mathai.
- The Plan was published in 1944–45. Out of these eight industrialists, Purshotamdas Thakurdas was one among the 15 members of the National Planning Committee (1938).
- J.R.D. Tata, G.D. Birla and Lala Sri Ram, were members of the sub-committees (29 in total) of the National Planning Committee.

**The Gandhian Plan:**

- Sriman Narayan Agarwal formulated The Gandhian Plan in 1944. The plan laid more emphasis on agriculture.
- Even if he referred to industrialisation, it was to the level of promoting cottage and village-level industries, unlike the NPC and the Bombay Plan which supported a leading role for the heavy and large industries.
- The plan articulated a ‘decentralised economic structure’ for India with ‘self-contained villages’.
- NPC that the Congress tried to articulate a different view on these issues, almost taking a break from Gandhi’s ideas.
- The very first session of the NPC was brought to an impasse by J.C. Kumarappa (the Ione Gandhian on the 15-member NPC) by questioning the authority of the NPC to discuss plans for industrialisation. He said on the occasion that the national priority as adopted by the Congress was to restrict and eliminate modern industrialism.

**The people’s Plan:**

- In 1945, yet another plan was formulated by the radical humanist leader M.N. Roy, Chairman of the Post-War Reconstruction Committee of Indian Trade Union.
- The plan was based on Marxist socialism and advocated the need of providing the people with the ‘basic necessities of life’.
- Agricultural and industrial sectors, both were equally highlighted by the plan. Many economists have attributed the socialist leanings in Indian planning to this plan.
- the United Front Government of the mid-nineties (20th century) and that of the United Progressive Alliance of 2004 may also be thought to have been inspired from the same plan.

**The Sarvodaya Plan:**

- The plan drew its major inspirations from the Gandhian techniques of constructive works by the community and trusteeship as well as the Sarvodaya concept of Acharya Vinoba Bhave, the eminent